



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 32493

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: PNC Capital Markets LLC

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

249 Fifth Avenue

(No. and Street)

Pittsburgh

PA

15222

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Charlene Wilson

412-762-6348

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLC

(Name - if individual, state last, first, middle name)

600 Grant Street, Suite 52

Pittsburgh

PA

15219

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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Washington, DC

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of
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Commonwealth of PA
County of Allegheny
OATH OR AFFIRMATION

I, Charlene Wilson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PNC Capital Markets LLC, as of and for the year ended December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Joy A. Damico

COMMONWEALTH OF PENNSYLVANIA

Notarial Seal

Joy A. Damico, Notary Public
Monroeville Boro, Allegheny County
My Commission Expires Oct. 7, 2010

Member, Pennsylvania Association of Notaries

Notary Public

Charlene Wilson

Signature

Vice President and Controller

Title

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

PNC Capital Markets LLC

***Pursuant to Rule 17a-5 Under the Securities
Exchange Act of 1934***

***Statement of Financial Condition as of
December 31, 2007 and Independent
Auditors' Report***

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**Washington, DC
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PNC CAPITAL MARKETS LLC

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PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Auditors

To the Member and Board of Managers of
PNC Capital Markets LLC:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of PNC Capital Markets LLC (the "Company") at December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

As stated in Note 1, opening member's equity as of January 1, 2007 has been restated.

PricewaterhouseCoopers LLP
February 28, 2008

PNC CAPITAL MARKETS LLC

STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2007

(In thousands)

ASSETS

ASSETS:

Cash and cash equivalents	\$ 5,244
Restricted cash	5
Other receivables (net of \$167 reserves)	8,612
Securities owned—at fair value:	
U.S. government	251,468
State and municipal	154,333
Corporate debt	13,849
Securities purchased under agreements to resell	192,037
Deferred tax asset	2,019
Other assets	<u>4,992</u>

TOTAL ASSETS	<u>\$ 632,559</u>
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LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:

Short-term borrowings	\$ 219,952
Subordinated liability	62,689
Securities sold under agreements to repurchase	53,089
Securities sold not yet purchased—at fair value:	
U.S. government	189,500
Deferred revenue	4,947
Payable to brokers, dealers and others	20,948
Accrued salaries and benefits	17,974
Accrued tax liability	555
Other liabilities	<u>9,146</u>
Total liabilities	<u>578,800</u>

MEMBER'S EQUITY*	<u>53,759</u>
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TOTAL LIABILITIES & MEMBER'S EQUITY	<u>\$ 632,559</u>
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See notes to financial statements.

* Beginning Member's Equity has been restated (increased) by a cumulative amount of \$160 (Note 1).

PNC CAPITAL MARKETS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2007

1. ORGANIZATION

PNC Capital Markets, LLC ("PNCCM" or the "Company") is a wholly owned subsidiary of PNC Holding LLC (the "Parent"), which is a wholly owned subsidiary of the PNC Financial Services Group, Inc. ("PNC"). PNCCM is registered as a securities broker and dealer pursuant to the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority.

The Company underwrites, deals and trades in corporate debt and state and municipal obligations. The Company also trades in U.S. government and agency securities, mortgage-backed securities, asset-backed securities, commercial paper, and money market instruments. In addition, the Company acts as an agent for affiliates of PNC and others in certain securities transactions and provides corporate finance services, including arranging loan syndications for PNC customers. In 2007, the Company acquired a remarketing book from Mercantile Safe Deposit & Trust Company for approximately \$452,000.

Restatement of Beginning Member's Equity

Beginning Member's Equity has been restated (increased) by a cumulative amount of \$160,000. Of this amount, approximately \$927,000 resulted from management's reassessment of the fair value of liabilities pertaining to underwriting indemnifications that were incorrectly accrued in prior years. This reassessment resulted in a decrease of beginning of the year deferred tax assets of approximately \$499,000, a decrease of beginning of the year other liabilities of approximately \$1.4 million and a resulting restatement of approximately \$927,000 on beginning of the year Member's Equity.

An additional amount of approximately \$1.1 million resulted from a prior fiscal year overaccrual of federal income tax expense. The Company changed its organizational structure from a corporation to a limited liability company in December 2005. This change in organizational structure would have allowed the Company to compute its federal income tax liability utilizing a more beneficial methodology. The \$1.1 million overaccrual resulted from the Company not utilizing this more beneficial methodology in the computation of its 2006 federal income tax liability for financial statement purposes. The adjustment resulted in a decrease in beginning of the year accrued tax liabilities of \$1.1 million and a resulting restatement on beginning of the year Member's Equity.

The remaining amount of approximately \$1.9 million resulted from a prior fiscal year underaccrual of employee incentive expense. The adjustment resulted in a decrease in beginning of the year accrued tax liabilities of approximately \$1.0 million and an increase in beginning of the year accrued salaries and benefits of approximately \$2.9 million and a restatement on beginning of the year Member's Equity.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation—The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

In preparing this financial statement, management is required to make estimates and assumptions that affect the amounts reported in the financial statement. Actual results will differ from such estimates and such differences may be material to the financial statement.

Cash and Cash Equivalents—Cash and cash equivalents are highly liquid investments that are readily convertible to cash and have original maturities of less than 30 days.

Securities Transactions—Proprietary securities transactions and related revenues and expenses are recorded on a trade date basis. Customers' securities transactions are recorded on a settlement date basis with related revenues and expenses of the Company recorded on a trade date basis.

Investment banking revenues include gains, losses and fees, net of payments to co managers, arising from securities offerings in which the Company acts as an underwriter or agent. Corporate finance fees are recognized at the time the underwriting is completed.

In the normal course of business, the Company obtains securities under resale agreements on terms which permit it to repledge or resell the securities to others. At December 31, 2007, the Company had obtained securities under resale agreements with a fair value of approximately \$186.3 million on such terms, substantially all of which have been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy its commitments under proprietary and customer short sales.

In the normal course of business, securities owned by the Company may be pledged to others to collateralize the Company's financing activities.

Securities Valuation—U.S. government, state and municipal, corporate debt, futures contracts, financial derivatives and securities sold, not yet purchased are stated at fair value with related changes in unrealized gains or losses reflected in income. Sales of securities not yet purchased represent obligations of the Company to deliver specified securities at a predetermined date and price. The Company is obligated to acquire the specified securities at prevailing market prices in the future to satisfy such obligations.

Changes in interest rates, in the shape of the yield curve, in valuations in the debt or equity markets, or disruptions in the liquidity or other functioning of financial markets could directly impact our assets and liabilities and our performance. Most of the Company's assets and liabilities are financial in nature and, therefore, the Company tends to be sensitive to market interest rate movement and the performance of the financial markets. Starting in the middle of 2007, there has been significant turmoil and volatility in worldwide financial markets which is, at present, ongoing. These conditions have resulted in increased credit risk as well as risks related to investment valuation and investment liquidity.

We believe that the potential impact to the Company related to these developments is mitigated due primarily to the types of securities the Company holds. The majority of the Company's trading assets are in U. S. government and municipal securities for which there remains an active secondary market. Neither of these asset classes have been significantly impacted by the above developments.

In addition, the Company has various measures in place to monitor this risk including monitoring credit limits for counterparties, trading limits by desk and value-at-risk limits by desk.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase—Securities purchased under agreements to resell and securities sold under agreements to repurchase are collateralized by U.S. government and agency obligations and are carried at the amounts at which they will be subsequently resold or repurchased. Interest is accrued on resale and repurchase contract amounts and is included in other receivables and other liabilities in the statement of financial condition.

It is the policy of the Company to take possession of securities purchased under agreements to resell. Collateral is valued daily and additional collateral is obtained from counterparties when appropriate. The counterparty on all resale agreements at December 31, 2007, was PNC Bank, N.A., a wholly owned subsidiary of PNC.

Depreciation and Amortization—Premises and equipment are depreciated over their estimated useful lives using the straight-line method, based on the following schedule:

<u>Asset</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	7 years
Personal computers	5 years
Computer software	5 years
Internally developed software	1 – 5 years

Leasehold improvements are amortized over the shorter of the term of the lease or estimated useful lives using the straight-line method.

Income Taxes—The operating results of the Company are included in the consolidated federal income tax return filed by PNC. The Company's federal income tax expense is computed as if the Company files separately. The Company uses the assets and liabilities method to account for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the current enacted tax rates.

The Company is a participant in a master tax sharing policy with PNC. Under this allocation methodology, PNC subsidiaries with taxable income record taxes based on the relationship of the Company's federal tax liability computed on a separate company basis, to the federal tax liability of the consolidated group. Subsidiaries with a tax loss receive an allocated benefit from the consolidated group based upon the reduction in taxes otherwise payable by the group.

Deferred Revenue—Deferred revenue represents funds received for transactions entered into which have not closed or funds received in advance for services performed on an annual basis.

3. FUTURES CONTRACTS

Futures contracts represent commitments to purchase or sell securities at a specified date and price. These transactions are utilized by the Company to economically hedge against risk positions associated with trading activities as well as for speculative purposes. These transactions are subject to market risk, which arises from the inherent fluctuations in the market value of the underlying security to be delivered, and to credit risk, which results from the possibility that a counterparty may

be unable to meet the terms of a contract in which the Company has a gain position. The Company's exposure to these risks is limited as these transactions are executed on organized exchanges. Organized exchanges approve counterparties and require security deposits all of which reduce credit risk. At December 31, 2007, the Company had futures contract commitments to sell U.S. government obligations of \$6 million and futures contract commitments to buy U.S. government obligations of \$20 million. The positive and negative fair value of these commitments at December 31, 2007, was approximately \$48,600 and \$35,300 respectively and are included in other assets and other liabilities in the statement of financial condition.

4. FINANCIAL DERIVATIVES

The Company enters into interest rate swap agreements to manage interest rate risk. The total gross notional amount on the interest rate swap agreements outstanding at December 31, 2007 was approximately \$494.1 million. The unrealized gain and loss on these instruments at December 31, 2007, was approximately \$1.1 million and \$2.8 million, respectively, and are included in other assets and other liabilities, respectively, in the statement of financial condition. PNC Bank, N.A., was the counterparty for the swaps.

5. RECEIVABLES FROM AND PAYABLES TO BROKERS, DEALERS, AND CLEARING ORGANIZATIONS

Receivables from and payables to brokers, dealers, and clearing organizations arise from the settlement of securities transactions and consist of the following at December 31, 2007 (in thousands):

	Receivables	Payables
Net trade date payable	\$ ---	\$ 19,754
Fails to deliver/receive	---	998
Other amounts due from/to brokers and dealers	<u>294</u>	<u>196</u>
Total	<u>\$ 294</u>	<u>\$ 20,948</u>

Receivables from brokers, dealers, and others are recorded within other receivables within the statement of financial condition.

6. REGULATORY REQUIREMENTS

The Company, as a registered broker/dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule ("SEC Rule 15c3-1"), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The required minimum net capital is equal to the greater of \$250,000 or 6-2/3% of aggregate indebtedness. At December 31, 2007, the Company had net capital of approximately \$89.6 million, which was approximately \$87.4 million in excess of its required net capital of approximately \$2.2 million.

Additionally, the Company maintains cash and qualified securities owned for the exclusive benefit of customers in accordance with SEC Rule 15c3-3. At December 31, 2007, qualified securities designated for the exclusive benefit of customers, which are included in U.S. government securities owned, totaled approximately \$1.0 million.

The Company operates in a highly regulated industry. Applicable laws and regulations, among other things, restrict permissible activities and investments and require compliance with various financial and customer-related protection standards. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions. In addition, the Company is subject to comprehensive examination and supervision by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with the laws and regulations or with the supervisory policies of these agencies.

7. INCOME TAXES

Significant components of the Company's net deferred tax asset as of December 31, 2007, are as follows (in thousands):

	Federal
Employee benefits	\$1,166
Deferred compensation	420
Deferred revenue	236
Reserves	415
Other tax assets	<u>(218)</u>
Net deferred tax asset	<u>\$2,019</u>

Other temporary differences that give rise to the net deferred tax assets are state income tax, depreciation, capitalized software, capital stock tax, and general accruals.

FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" was adopted on January 1, 2007. The company has no unrecognized tax benefits.

8. RELATED-PARTY TRANSACTIONS

Cash and cash equivalents include cash on deposit with an affiliate of approximately \$4.6 million.

Short-term funding is provided by an affiliate, PNC Funding Corp. ("PNC Funding"), through one \$100 million subordinated line of credit and one \$500 million subordinated line of credit. The lines of credit bear interest at the approximate interest rate equal to PNC Funding's fully loaded blended long-term debt rate. At December 31, 2007, the Company had an outstanding balance under the lines of credit of \$1.5 million and \$50 million at a rate of 5.08%. These balances are included in short-term borrowings on the statement of financial condition. The \$500 million is due on demand to PNC Funding. Borrowings under these lines of credit do not qualify as regulatory net capital nor are such amounts included as part of aggregate indebtedness.

The Company has a fixed rate subordinated loan in the amount of approximately \$62.7 million with the Parent at a rate of 5.75% with final maturity on October 1, 2009. This loan is included as regulatory capital for purposes of computing net capital under SEC Rule 15c3-1.

Overnight funding is provided by an affiliate, PNC Bank, N.A., through an \$800 million line of credit bearing interest at the Effective Federal Funds Rate plus 25 basis points. The outstanding

balance at December 31, 2007 was approximately \$168.5 million at a rate of 4.75% and is included in short-term borrowings on the statement of financial condition. The Company pledges securities to secure this borrowing.

In addition, the Company has an unsecured revolving variable rate subordinated loan agreement with PNC Funding, which provides a revolving credit line of \$100 million with final maturity on October 1, 2009. At December 31, 2007, the Company had no outstanding balance under this revolving subordinated loan agreement. Borrowings under this loan qualify as additional regulatory capital for purposes of computing net capital under SEC Rule 15c3-1.

The Company conducts investment advisory and financial advisory services on behalf of PNC Bank, N.A.

During the normal course of business, the Company may execute securities transactions with an affiliate or sell securities under agreements to repurchase from an affiliate. In addition, the Company may also provide or receive various other advisory, referral, or administrative services to or from PNC affiliate organizations. Related-party balances not discussed previously as of December 31, 2007, are listed in the table below (in thousands):

Assets:	
Securities purchased under agreements to resell	\$ 192,037
Deferred tax asset	2,019
Other assets	2,071
Liabilities:	
Securities sold under agreements to repurchase	\$ 53,089
Accrued tax liability	1,255
Other liabilities	5,855

9. EMPLOYEE BENEFIT PLANS

The Company's employees participate in PNC's Incentive Savings Plan (the "ISP"). Under the ISP, employee contributions of up to 6% of biweekly compensation, as defined in the ISP and subject to the Internal Revenue Code limitations, are matched by PNC.

PNC sponsors a noncontributory, qualified defined benefit pension plan, which covers substantially all of the Company's employees. The plan provides pension benefits that are derived from a cash balance formula that is based on certain compensation levels, age and length of service. Separate financial data for the Company is not available with respect to such plan. At December 31, 2007, the projected benefit obligation did not exceed the fair value of plan assets.

Certain of the Company's employees participate in PNC stock-based compensation plans. The Company recognizes compensation expense for awards issued under these plans in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. PNC provides certain health care and life insurance benefits for retired employees (the "Postretirement Benefits") through various plans. At December 31, 2007, allocated Postretirement Benefits, included in other liabilities in the statement of financial condition, totaled approximately \$484,000. No separate financial obligation data for the Company is available with respect to such plan.

PNC sponsors certain other employee benefits, including payment of payroll taxes, for Company employees.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all financial instrument assets and liabilities are carried at fair value or at amounts which approximate fair value. Such instruments include cash and cash equivalents, receivables from brokers, dealers, and clearing organizations, securities owned, securities purchased under agreements to resell, other receivables, subordinated liability, securities sold under agreements to repurchase, securities sold not yet purchased and short-term borrowings. The fair value of the subordinated liability at December 31, 2007, was approximately \$64.3 million.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company enters into various transactions involving financial instruments with off-balance-sheet risk, including securities sold not yet purchased and securities purchased and sold on a when-issued basis. These financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk.

The obligation for securities sold not yet purchased represents a commitment to deliver specified securities. The Company will acquire the required securities at prevailing future market prices to satisfy this obligation. Accordingly, the Company's ultimate obligation may exceed the amount recognized in the financial statements. Exposure to market risk is managed by the Company through position limits and other controls.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These transactions may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

12. LITIGATION

The Company and some other wholly owned subsidiaries of PNC are defendants (or have potential contractual contribution obligations to other defendants) in several pending lawsuits brought during late 2002 and 2003 arising out of the bankruptcy of Adelphia Communications Corporation and its subsidiaries ("Adelphia").

One of the lawsuits was brought, on Adelphia's behalf by the unsecured creditors' committee and equity committee in Adelphia's consolidated bankruptcy proceeding and was removed to the United States District Court for the Southern District of New York by order dated February 9, 2006. Pursuant to Adelphia's plan of reorganization, this lawsuit will be prosecuted by a contingent value vehicle, known as the Adelphia Recovery Trust. In October 2007, the Adelphia Recovery Trust filed an amended complaint in this lawsuit, adding defendants and making additional allegations.

The other lawsuits, one of which is a putative consolidated class action, were brought by holders of debt and equity securities of Adelphia and have been consolidated for pretrial purposes in the above district court. The bank defendants, including the Company, have entered into a settlement of the consolidated class action. This settlement was approved by the district court in November 2006. In December 2006, a group of class members appealed orders related to the settlement to the United

States Court of Appeals for the Second Circuit. The Company has established a liability of approximately \$1.2 million which is included in other liabilities on the statement of financial condition.

The non-settled lawsuits arise out of lending and investment banking activities engaged in by the Company together with other financial services companies. In the aggregate, hundreds of other financial services companies and numerous other companies and individuals have been named as defendants in one or more of these lawsuits. Collectively, with respect to some or all of the defendants, the lawsuits allege federal law claims (including violations of federal securities and banking laws), violations of common law duties, aiding and abetting such violations, voidable preference payments, and fraudulent transfers, among other matters. The lawsuits seek monetary damages (including in some cases punitive or treble damages), interest, attorneys' fees and other expenses, and a return of the alleged voidable preference and fraudulent transfer payments, among other remedies.

We believe that we have defenses to the claims against us in these lawsuits, as well as potential claims against third parties, and intend to defend the remaining lawsuits vigorously. These lawsuits involve complex issues of law and fact, presenting complicated relationships among the many financial and other participants in the events giving rise to these lawsuits, and have not progressed to the point where we can predict the outcome of the non-settled lawsuits. It is not possible to determine what the likely aggregate recoveries on the part of the plaintiffs in these remaining matters might be or the portion of any such recoveries for which we would ultimately be responsible, but the final consequences to the Company could be material.

In the normal course of business, the Company is subject to pending or threatened lawsuits, including arbitration. Some of the legal actions may include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Management does not anticipate that the ultimate aggregate liability, if any, arising out of such matters will have a material adverse effect in the Company's financial position.

13. COMMITMENTS

The Company provides indemnification in connection with securities offering transactions in which it is involved. When the Company is an underwriter or placement agent, it provides a limited indemnification to the issuer related to its actions in connection with the offering and, if there are other underwriters, indemnification to the other underwriters intended to result in an appropriate sharing of the risk of participating in the offering. However, the potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these transactions.

In the normal course of business, the Company enters into underwriting and when-issued commitments. The Company had contractual commitments of \$46.8 million relating to underwriting agreements on a when- and if-issued basis at December 31, 2007.

In accordance with industry practice, the Company generally settles transactions executed on behalf of its customers within three business days after the trade date. The risk of loss on unsettled transactions relates to the customers' or brokers' inability to meet the terms of their contracts. Settlement of these transactions did not have a material effect on the Company's financial statement.

The Company leases various types of equipment under noncancelable leases with remaining terms of less than four years with certain renewal options for like terms. The related rent expense totaled

approximately \$1.6 million in 2007. At December 31, 2007, future minimum rentals under these lease agreements aggregated to approximately \$638,100. Minimum rentals for the years 2008 through 2009 are approximately \$551,300 and \$86,800, respectively.

14. RECENT ACCOUNTING PRONOUNCEMENTS

- In May 2007, the Financial Accounting Standards Board ("FASB") issued FSP FIN 48-1, "Definition of Settlement in FASB Interpretation ("FIN") No. 48". This FSP amended FIN 48, "Accounting for Uncertainty in Income Taxes," to provide guidance as to the determination of whether a tax position is deemed effectively settled for purposes of recognizing previously unrecognized tax benefits under FIN 48. This guidance was adopted effective January 1, 2007 in connection with our adoption of FIN 48.
- In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied on an instrument by instrument basis with a few exceptions. The election is irrevocable and must be applied to entire instruments and not to portions of instruments. If the fair value option is elected for any applicable financial assets or liabilities, it must be implemented in conjunction with SFAS 157. SFAS 159 is effective beginning January 1, 2008. This standard is not expected to have a material effect on our financial position.
- SFAS 157, "Fair Value Measurements," defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value, it does not expand the use of fair value to new accounting transactions and does not apply to pronouncements that address share-based payment transactions. As required, we will adopt SFAS 157 prospectively beginning January 1, 2008. This standard is not expected to have a material effect on our financial position.

END